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management

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people
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Chapter

2

Managing in a Global Environment

Learning Objectives

After reading this chapter, you should be able to:

- **Understand the landscape of the global market.**
- **Develop an awareness for the role of culture in international management.**
- **Recognize the major options firms face when they choose a global strategy and the conditions that make a strategic choice most appropriate.**
- **Determine the best mode of entry into foreign markets given each firm's unique characteristics.**
- **Develop effective human resource practices for managing international subsidiaries.**
- **Become aware of ethical issues in international operations.**

The Changing Pattern of International Business

● Changing world output and world trade picture

- The U.S. no longer dominates the world economy
- Large U.S. multinationals no longer dominate international business
- The centrally planned communist economies that made up roughly half the world suddenly become accessible to Western businesses
- The global economy has become more knowledge-intensive

The Changing Pattern of International Business

(continued)

- **Lowered trade barriers**

- General Agreement on Tariffs and Trade (GATT)
- World Trade Organization (WTO)

- **Integrated Economic Markets**

- The European Union (EU)
- The North American Free Trade Act (NAFTA)
- The Association of Southeast Asian Nations (ASEAN)
- The Asia Pacific Economic Cooperation (APEC)



The Changing Pattern of International Business

(continued)

- **Global consumer preferences**

- Tastes and preferences are converging
- Presence of mass media, exposure to goods from various countries, and standardized products

- **Globalized production**

- Cost efficiency



Example of Globalized Production

Of the \$20,000 sticker price of a General Motors Automobile LeMans:

- \$6,000 goes to **South Korea**, where the car was assembled
- \$3,000 goes to **Japan** for sophisticated high-tech parts (engines, transaxles, electronics)
- \$800 goes to **Taiwan, Singapore, and Japan** for small parts
- \$500 goes to **Great Britain** for advertising and marketing services
- \$1,000 goes to **Ireland** for data processing
- \$7,600 goes to GM and its external professional firms in the **United States**

The Changing Pattern of International Business

(continued)

- **Technological innovations**

- Advances in communications, information processing, and transportation technology
- Fiber optics, wireless technology, the Internet and World Wide Web, and satellite technology

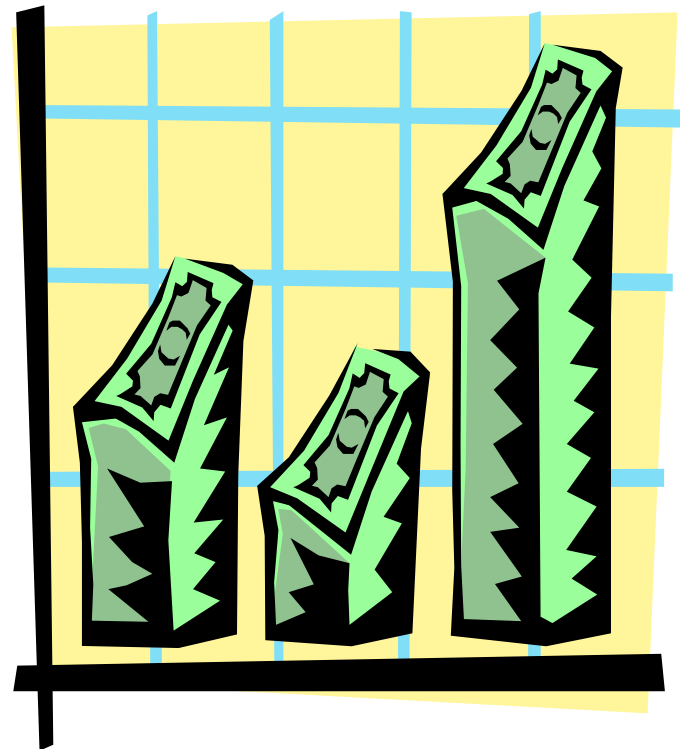
- **Management across cultures**

- Adaptation to business strategies, structures, operational policies, and human resource programs

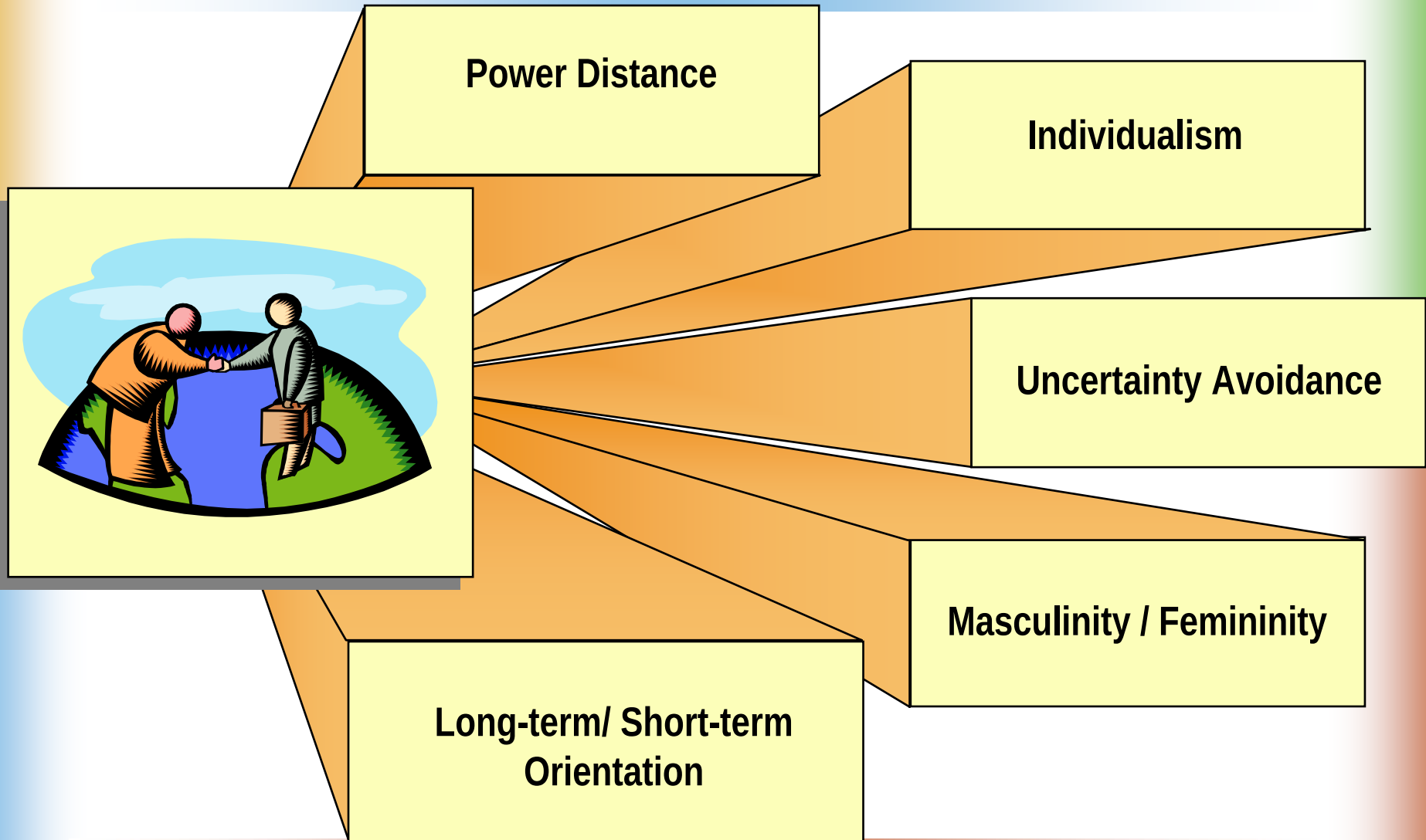


Major Factors Affecting International Business

- **General business environment**
- **Legal system**
 - Common law
 - Civil law
 - Muslim law
- **Economic environment**
- **Cultural environment**
 - Culture shock



Dimensions of Culture



Entry Strategy and Strategic Alliances

Four key decisions of a firm contemplating foreign expansion:

- Which countries to enter
- When to enter
- Scale of involvement
- How to enter



Choosing Foreign Countries

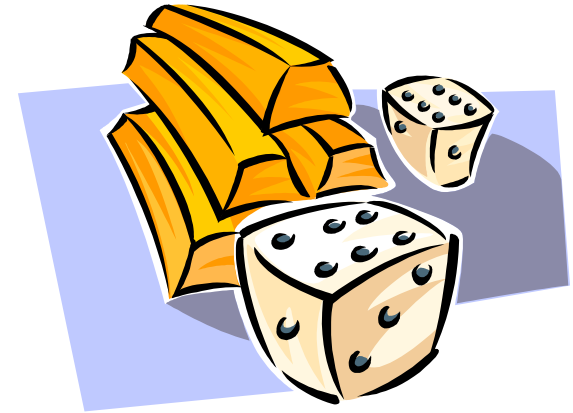
The appeal of a particular country is likely to be greater when:

- **The size of the domestic market is large**
- **The present wealth of consumers in that market is high and projected to grow in the future**
- **The needed resources are readily available**
- **The firm's product offerings are suitable to a particular market**
- **A positive business environment exists**

When to Enter Foreign Countries and Scale of Involvement

- **When to Enter**

- First-mover advantages
- Pioneering costs



- **Scale of Involvement**

- Lowest if the firm simply decides to export its products to the foreign location
- Highest if the firm decides to have a wholly owned subsidiary in the foreign country

Modes of Entry

Exporting

Turnkey Project

Licensing

Franchising

Joint Venture

Strategic Alliance

Wholly Owned
Subsidiary



Advantages and Disadvantages of Various Modes of Entry Choices

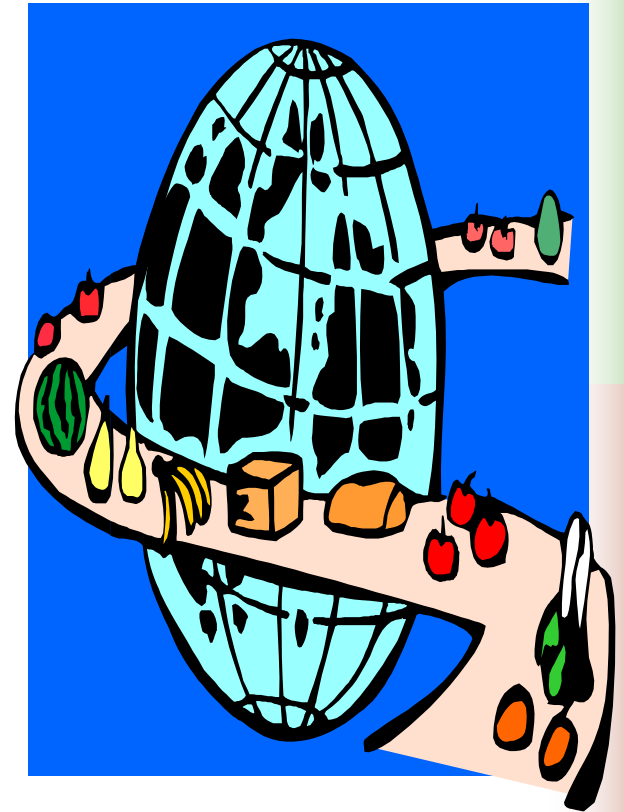
Mode of Entry	Advantages	Disadvantages
Exporting	Economies of scale Lower foreign expenses	No low cost sales High transportation costs Potential tariffs
Turnkey Project	Access to closed markets	Competition from local client Loss of competitive advantage
Licensing	Quick expansion Lower expenses and risks Lower political risk	Loss of competitive advantage Limited ability to use profits in one country to increase competition in another country
Franchising	Quick expansion Lower development costs and risks Lower political risk	Loss of competitive advantage Potential quality control problems Limited ability to use profits in one country to increase competition in another country

Advantages and Disadvantages of Various Modes of Entry Choices (continued)

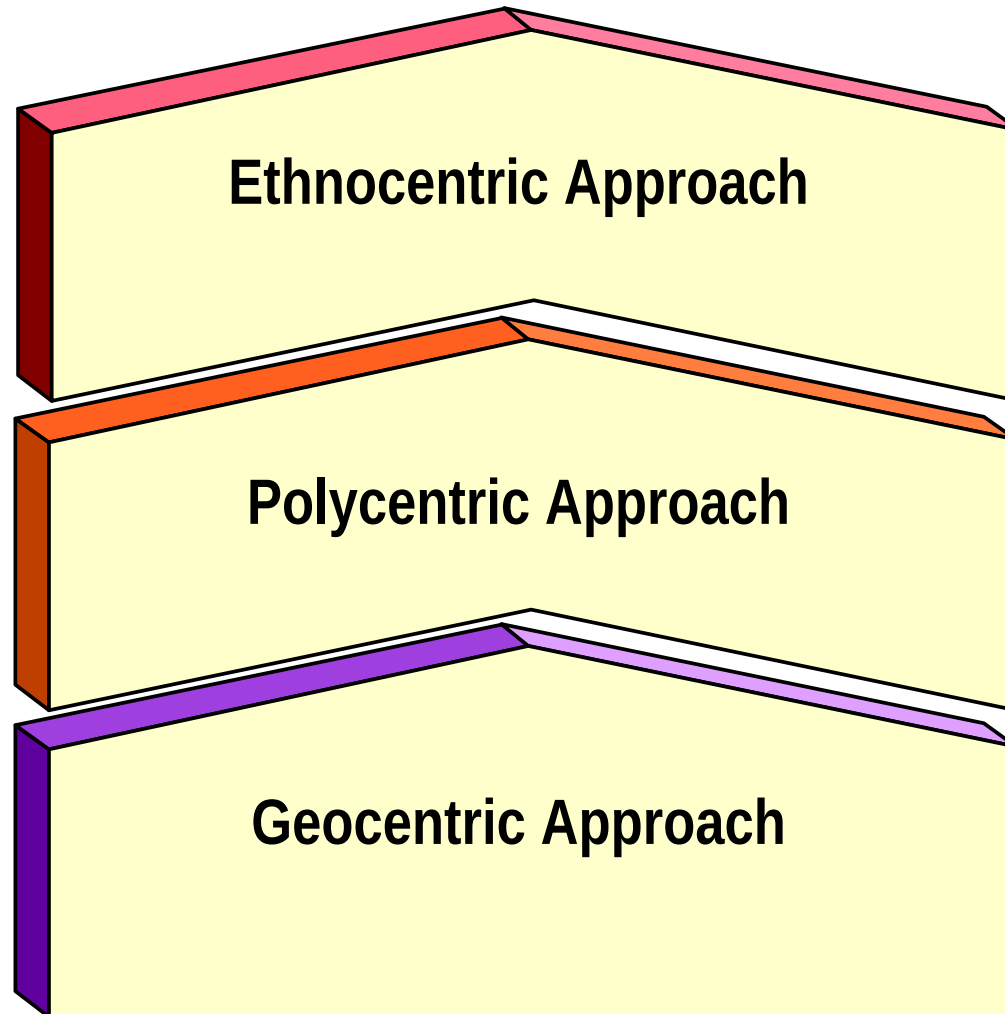
Mode of Entry	Advantages	Disadvantages
Joint Venture	Knowledge of local markets Lower development costs and risk Access to closed markets	Potential for conflict of interest Loss of competitive advantage
Strategic Alliance	Access to closed markets Pooled resources increase partner's capabilities Complementary skills & assets	Loss of competitive advantage Potential overestimation of partner's capabilities
Wholly Owned Subsidiary	Maximum control over proprietary knowledge/ technology Greater strategic flexibility Efficiencies of global production system	Large capital outlay Lack of local knowledge Increased risk

Examples of Strategic Alliances

- **General Electric – Snecma of France**
- **Toshiba – IBM**
- **Mitsui – General Electric**
- **Toyota – GM, TRW**
- **Canon – Hewlett-Packard**
- **Mitsubishi – Caterpillar**



Basic Approaches to Managing an International Subsidiary



Why International Assignments End in Failure

- Career blockage
- Culture shock
- Lack of pre-departure cross-cultural training
- Overemphasis on technical qualifications
- Getting rid of a troublesome employee
- Family problems



Key Human Resource Management Factors for Global Firms

- **Selection**

- Selection criterion should include cultural sensitivity

- **Training**

- Length of assignment determines depth of training
- Cross-cultural training is critical to success

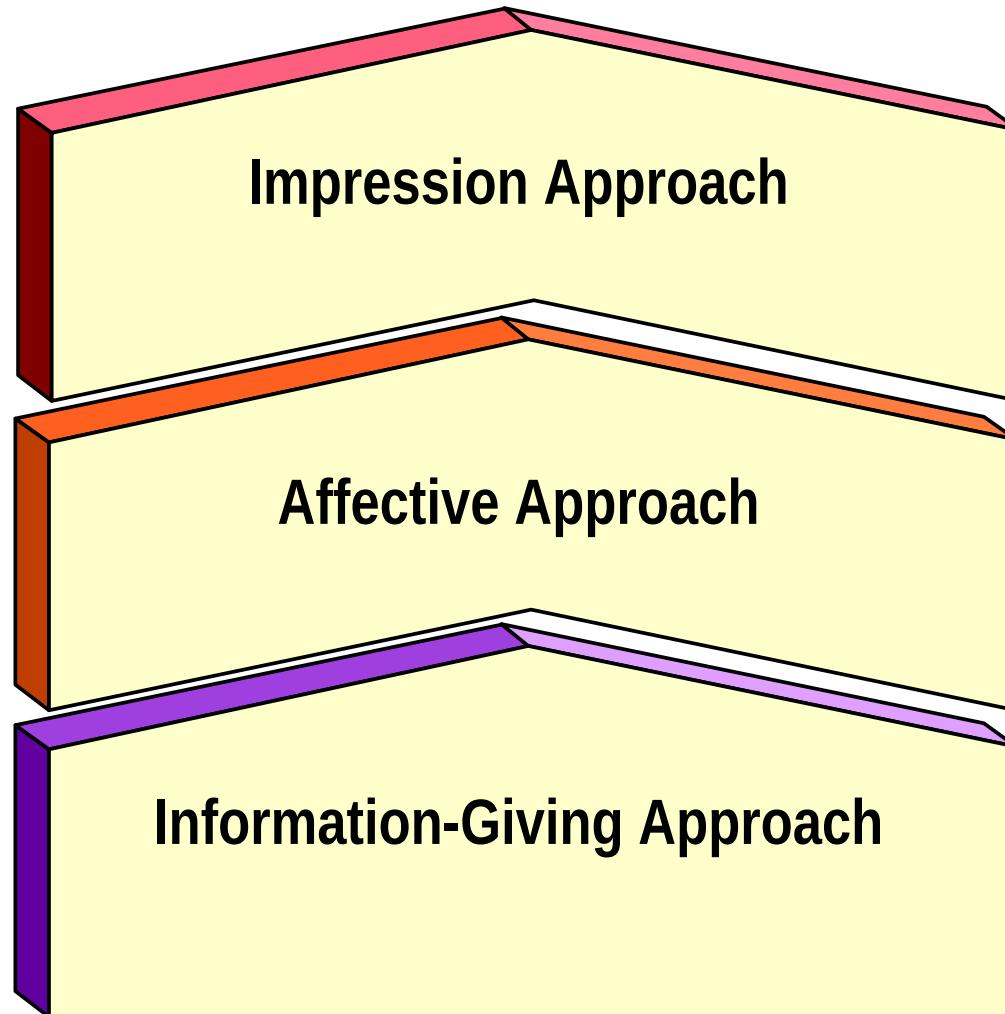
- **Career Development**

- International assignments should be part of career advancement plan

- **Compensation and Benefits**

- Incentives and quality-of-life concerns

Three approaches to cross-cultural training



Ethics and Social Responsibility

- **Globalization greatly increases the possibility that managers will face an ethical dilemma.**
- **Different cultures have different notions of right and wrong.**
- **U.S. Foreign Corrupt Practice Act (1977).**
- **Many firms and industry groups have developed their own *codes of conduct* for foreign operations.**

Applications of Management Perspectives— *For the Manager*

- **Firms are prevented from capitalizing on business opportunities overseas by a lack of awareness of:**
 - How to enter foreign markets
 - How to operate in diverse national settings
- **By developing a better appreciation of the unique challenges that may confront them, managers can learn how to function well overseas.**
- **Groom managers for their role in globalization.**

Applications of Management Perspectives—

For Managing Teams

- **Many firms are entering joint ventures with companies in other countries.**
- **Joint ventures usually require teams made up of employees from different nations.**
- **The ability of international teams to work together in a climate of mutual respect is a key to success.**
- **This requires:**
 - **Cross-cultural sensitivity.**
 - **Understanding of the international context in which the firm operates.**

Applications of Management Perspectives—

For Individuals

- **The career mobility of employees is likely to be enhanced if they have international skills.**
- **International savvy is increasingly valued.**
- **Many firms require employees to have international experience before they can move into the upper management ranks.**